

Information on Washington's Tax Structure

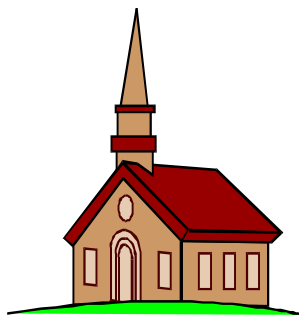


High Technology Business and Occupation Tax Credit

The information contained in this fact sheet is current as of the date of publication and is intended only as general information. It does not cover every aspect of this incentive. Not all possible applications of this program are discussed. This fact sheet does not alter or supersede any administrative regulations or rulings issued by the Department.

An annual credit of up to \$2 million is allowed for businesses that perform research and development in Washington under specific high technology categories AND meet the minimum expense requirements. The credit cannot exceed the amount of the business and occupation (B&O) tax due during the year the credit is taken. The credit rates follows:

- ◆ Nonprofit corporation or association — .484 percent (.00484) of expenses; and
- ◆ For profit businesses — 1.5 percent (.015) of expenses.



The technology categories are:

- ◆ Advanced computing;
- ◆ Advanced materials;
- ◆ Biotechnology;
- ◆ Electronic device technology; and
- ◆ Environmental technology.

REQUIREMENTS

The business' spending on research and development during the year the credit is claimed must exceed .92 percent (0.0092) of the business' taxable amount during the same year.

Spending on research development includes expenses directly incurred while conducting the research and development including:

- ◆ Operating expenses;
- ◆ Wages and benefits;
- ◆ Supplies; and
- ◆ Computer expenses.

For example: A business reports \$1 million as its taxable amount on the Combined Excise Tax Return during a calendar year. This company must spend at least \$9,200 ($\$1,000,000 \times .0092 = \$9,200$) on qualified research and development during the same calendar year to claim the credit.

Businesses may estimate their annual spending on research and development for the year and take the credit throughout the year. However, the spending does not reach the threshold, the business is required to pay the underpaid taxes, with interest, to the Department of Revenue.

A person performing research under contract has the option of using the greater of either its qualified research and development expenditures or 80 percent of the amounts received as compensation for conducting the qualified research and development.



A person performing qualified research and development under contract for another, MAY ASSIGN all or a portion of the credit to the person paying for the research and development. Both businesses must meet the eligibility requirements. Assigned credits may not exceed the smaller of the B&O tax of the research business or \$2 million.

HOW DOES THE CREDIT WORK?

Example A: A for profit manufacturing business performs its own research and development. It has an estimated gross taxable income of \$2,000,000.

To determine if the business is eligible for the credit:

It must have expenses of at least \$18,400 ($\$2,000,000 \times .0092 = \$18,400$). If the expenses are \$18,400 or more, the credit may be used.

To determine the amount of credit:

Multiply the expenses (\$18,400) times the rate (1.5%). The amount of credit is \$276 ($\$18,400 \times .015 = \276).

To use the credit:

Since the business is a manufacturer, the B&O tax on the taxable amount is \$9,680 ($\$2,000,000 \times .00484 = \$9,680$). The credit of \$276 should be subtracted from \$9,680, leaving a B&O tax due of \$9,404.

Example B: A for profit business is performing research for another company and is being paid \$90,000 for their contract.

80% of the total amount paid is used in determining the credit ($\$90,000 \times .80 = 72,000$).

NOTE: The contractor could have used his or her qualified research expenditures to determine the allowable credit, but chose not to disclose his or her expenses.

To determine the amount of credit:

Multiply the 80% of the total amount paid (\$72,000) by the rate (1.5%). The amount of credit is \$1,080 ($\$72,000 \times .015 = \$1,080$).

To use the credit:

The B&O tax rate for conducting research services is 1.5%. The B&O tax on \$90,000 is \$1,350 ($\$90,000 \times .015 = \$1,350$). The credit of \$1,080 should be subtracted from the \$1,350 tax due, leaving B&O tax due of \$270.

In this example, the researcher could have assigned his or her credit to the company in which he or she was contracted to do the research.

Example C: A nonprofit business performs its own research and development. It has a gross taxable amount of \$1,000,000 and \$8,000 in expenses. To be eligible for the credit, this business must have \$9,200 of expenses.

($\$1,000,000 \times .0092 = \$9,200$). This nonprofit business does not qualify. The credit can not be used.



When a credit is used, a copy of the Declaration Research and Development Credit form must be attached to the Combined Excise Tax Return. The credit should be entered on page one of the Combined Excise Tax Return, under the TOTALS section. The amount of the credit should also be entered on page two of the Combined Excise Tax Return under the CREDITS section, credit ID number 830.

APPLICATION

No preapproval from the Department of Revenue is required to use this credit.

The first time a business uses the high technology B&O tax credit, it must complete an initial survey and mail it to the address shown on the bottom of the form. In addition, the business must complete the Declaration Research and Development Credit form and attach it to the Combined Excise Tax Return each time the credit is used.

A copy of the [Declaration Research and Development Credit form](#) and the [Initial Survey](#) is provided in this publication.

Additional applications may be obtained by contacting our Telephone Information Center at

1-800-647-7706 (TTY 1-800-451-7985). You can also have the documents faxed by calling the Fast Fax system at (360) 786-6116 and requesting code number 260003.

LAWS AND RULES

- ◆ Chapter 82.63 Revised Code of Washington (RCW) — Business and Occupation Tax Credit and Retail Sales/Use Tax Deferral for High Technology Industries
- ◆ Chapter 82.04.4452 RCW — Credit — Research and development spending

The Department of Revenue will, upon request, provide copies of the laws and administrative rules.

PUBLICATIONS ORDER FORM

The Department of Revenue offers numerous publications covering a wide range of topics. These publications are available upon request from any Department of Revenue field office, or by calling the Telephone Information Center at 1-800-647-7706, or by completing this form and mailing it to: Department of Revenue, Taxpayer Services Division, PO Box 47478, Olympia, WA 98504-7478. Many of these publications are also available on the Department's Internet web site at <http://dor.wa.gov>.

QUANTITY	PUBLICATION		PUBLICATION
_____	Guide to Completing the Combined Excise Tax Return	_____	Outline of Major Taxes
_____	Active, Nonreporting Business	_____	Personal Property Tax
_____	Aircraft Taxes	_____	Property Tax Deferrals for Senior Citizens and Disabled Persons
_____	Audit Process	_____	Property Tax Exemptions for Senior Citizens and Disabled Persons
_____	Below Minimum	_____	Resale Certificate
_____	Business and Occupation Tax	_____	Real Estate Transactions and Use Tax
_____	Business Tax Overview	_____	Retail Sales Tax
_____	Child Care Operators	_____	Small Claims Hearings
_____	Cigarette Tax	_____	Taxpayer Rights and Responsibilities
_____	Collection Process	_____	Tax, Title and Registration of Boats
_____	Deferrals, Credits and Exemptions	_____	Temporary Business Registration
_____	Electronic Funds Transfer	_____	Unclaimed Property
_____	Electronic Filing	_____	Use Tax
_____	Farm Use Tax		
_____	Fast Fax		
_____	Fish Taxes	OTHER:	
_____	Hazardous Substance Tax	_____	Excise Tax Advisory (ETA) _____ identify by number
_____	High Technology B&O Tax Credit	_____	Numerical listing and titles of ETAs
_____	Homeowner's Guide to Property Tax	_____	Special Notice _____ identify by number and title
_____	Horse Industry Tip Sheet	_____	Tax Topics article reprint _____ please include code, issue and article
_____	How to Amend Your Combined Excise Tax Return	_____	WAC (Rule) _____ identify by number
_____	New Business Handbook	_____	Washington Tax Facts _____ identify by name
_____	Nonprofit Organizations		

PLEASE SEND PUBLICATION(S) TO:

Contact Person: _____

Business Name: _____

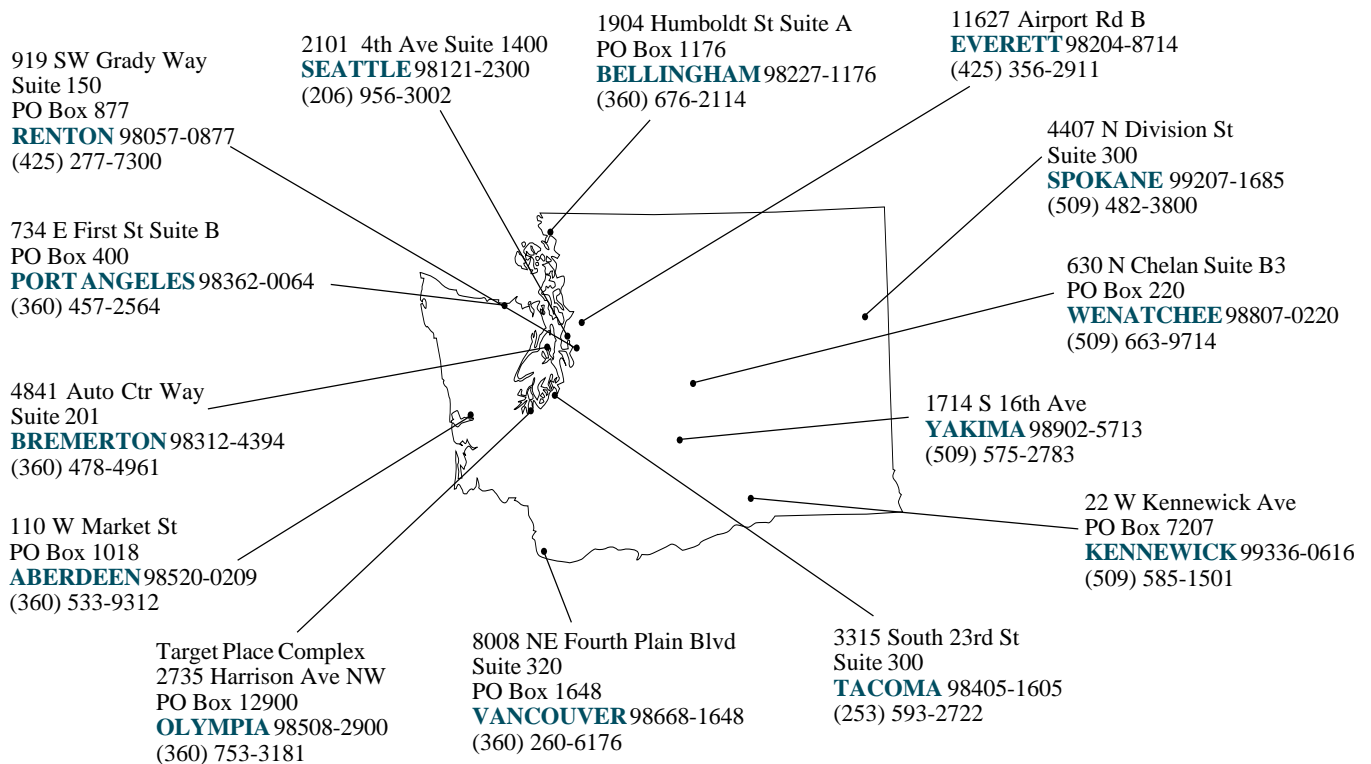
Street Address: _____

City, State, Zip: _____

Department of Revenue

Telephone Information Center
1-800-647-7706

FIELD OFFICE LOCATIONS



<http://dor.wa.gov>

To inquire about the availability of this publication in an alternate format for the visually impaired or a language other than English, please call (360) 753-3217. Teletype (TTY) users, please call 1-800-451-7985



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